

**Department of Energy**  
**Working Capital Fund**  
**WCF Cost Structure Analysis, FY 2008**

**Introduction**

In response to the 1997 Inspector General report, Fund management agreed to provide a report to the Board that identifies Working Capital Fund business costs not now reflected in the Working Capital Fund pricing structure ... [including] the hypothetical impacts on business line viability of including such costs in the Fund pricing structure.<sup>1</sup> The first report was transmitted to the Board on June 30, 1998. This current report updates the previous nine reports and summarizes areas of change.

Since the creation of the Working Capital Fund (WCF), there have been numerous changes in the structure and offerings of the Fund businesses:

- The Contract Audit and Executive Information System businesses were eliminated in FY 1998 and FY 1999, respectively;
- The Payroll business was added in FY 2000.
- The Supply business was outsourced in FY 2001;
- In FY 2001 the Board approved the addition of two new businesses, the Online Learning Center and CHRIS;
- Beginning in FY 2003, the Copy Business Line introduced document imaging and Optical Character Recognition (OPR) services; and
- For FY 2004, the Board approved the addition of a new Project Management Career Development Program business line, expansion of the Contract Closeout Business Line to include purchase card surveillance; expansion of the Online Learning Center Business, which was renamed to Corporate Training Services; and expansion of the Telephone business line to include cell phones and other devices.
- For FY 2006 the Desktop and Network Businesses merged into one business and the Department added the STARS business line (no employees).
- In FY 2006 the Office of Management, Budget, and Evaluation was reorganized into the successor organizations of the Office of Management, Office of Human Capital Management, and the Office of Chief Financial Officer. There are now four parent organizations for WCF businesses including the Office of Chief Information Officer.
- The Financial Control (A-123) business was added in FY 2007.
- Administrative Services are subject to outsourcing and the Office of Administration subsidizes contract costs in stead of subsidy to federal payroll. This subsidy will be remedied in FY 2009 when the programs will budget for this contractual expense.

**Summary of Results**

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<sup>1</sup> Reference: Attachment to January 13, 1998 memorandum from the Assistant Secretary for Human Resources and Administration to the Acting Inspector General.

Indirect Costs <sup>2</sup> for FY 2008 are reported at 13.9% of the revenues of the respective WCF businesses. Indirect Costs, estimated at \$16.1 million for FY 2008, are funded in the budgets of the Office of Management, Office of Human Capital Management, Chief Financial Officer, and the Chief Information Officer. Chart III demonstrates the impact of the subsidies on business line cost structure (except Building).

### Background

- Federal Accounting Standards Advisory Board (FASAB) guidelines for managerial cost accounting require that "all costs be recognized in developing the price at which goods and services would be sold to other entities [within the government]."
- However, since FY 1997, the House Energy and Water Development Appropriations Committee report has directed the Department not to include the costs of Federal employee salaries and benefits in the cost structures of the Fund business lines.
- The 1997 WCF report prepared by the DOE Inspector General also raised the issue of indirect costs, and management agreed to prepare an analysis of such costs by June 30, 1998 and to advise the Board of likely impacts on business line viability.
- While the policies of the House Appropriations Committee and DOE management preclude the inclusion of DOE Federal salaries and certain related costs in the Fund pricing structure, there remains the question of whether such exclusion may have a material impact on customer and business line behavior. This analytical question, rather than the policy question, is the subject of this report.
- This 2008 report concludes that the costs to the business lines would increase if we charge full cost by approximately \$16.1 million, of 13.9%, if the cost structures were expanded to include salaries (\$6.3 million) and other costs (\$9.8 million)<sup>3</sup>.

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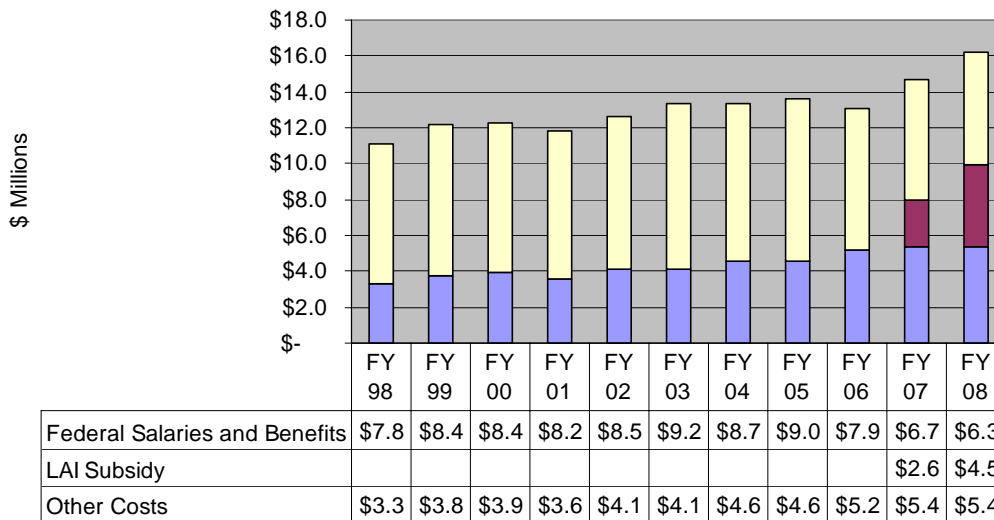
<sup>2</sup> The term, indirect costs as used in this paper, refers to costs that are not recognized in the Fund because of regulatory considerations. In fact, these categories of costs would normally be considered direct in most financial contexts.

<sup>3</sup> The FY08 decrease in Federal Salaries and benefits are due to Building business conversion from federal employees to contractors. The Office of Management subsidizes the \$4.5 million of cost for the L.A.I. contract which are added to other costs. This will not be charged to programs in the WCF until the FY 2009 Budget.

## Analytic Approach

The focus of the 2008 analysis was to validate and update the estimates provided with the 2007 report. Each business line manager provided updated employment and space estimates for their respective businesses. The data are presented on the basis of annualized FY 2008 costs they were estimated at the time of the issuance of the June 2008 bill.

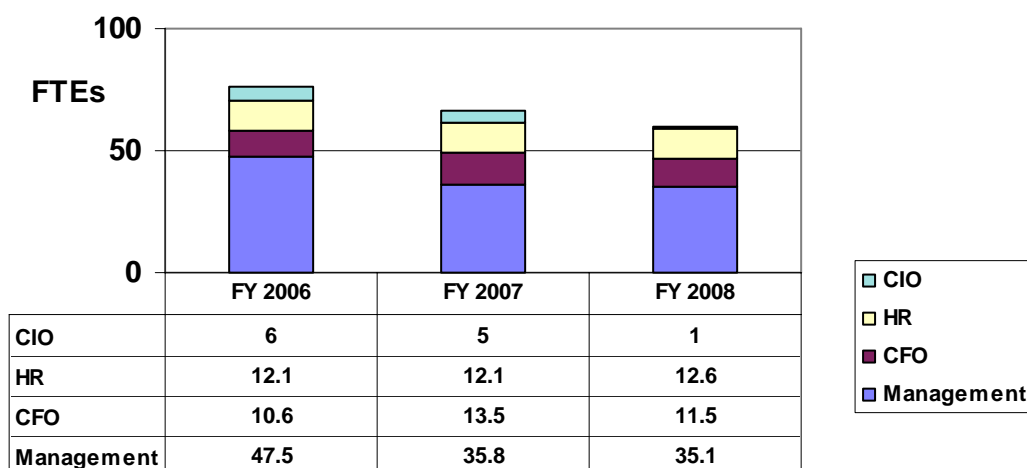
**Chart I. Working Capital Indirect Cost**



## Staffing Levels

It is estimated that 60 Federal staff are directly engaged in the operation of the Fund businesses. Table IV provides these estimates by business line in comparison to estimates in previous reports, and also includes FY 2007 salary and benefits estimates. It is important that this baseline is established to allow comparisons next year and beyond with post A-76 business line structures. In this comparison of FY 2006, FY 2007 and FY 2008 you can see the effect of the changes on the Office of Management and the Chief Information Officer.

**Chart II: Impact of Competitive Sourcing**



**Inter-Business Transactions**

Working Capital Fund businesses consume goods and services that are provided by other Fund businesses, but heretofore only a small proportion of these charges are made to the consuming business. For the most part, the offices of Chief Financial Officer, Management, Human Capital, and Chief Information Officer have paid these other related expenses as though they were derived from non-WCF activities. The 1998 analysis estimated these costs at approximately \$3.3 million. These costs have grown incrementally each year to equal \$9.9 million in FY 2008.

**Table II: FY 2008 Inter-Business Costs (\$000)**

<b>Business Line (Consumer)</b>	<b>Building Occupancy</b>	<b>Other WCF</b>	<b>eXCITE</b>	<b>Total</b>
Telephones	\$204	\$6	\$135	\$345
Networking	\$1,163	\$7	\$85	\$1,255
Building Occupancy	\$749	\$144	\$72	\$965
LAI Subsidy	\$0	\$4,500	\$0	\$4,500
Supplies	\$248	\$43	\$25	\$316
Copiers	\$206	\$8	\$43	\$257
Mail Service	\$227	\$12	\$5	\$244
Printing & Graphics	\$891	\$66	\$43	\$1,000
Procurement Management	\$68	\$16	\$51	\$135
Payroll	\$59	\$48	\$41	\$148
Corporate Training Services (CTS)	\$25	\$20	\$16	\$61
CHRIS	\$81	\$229	\$44	\$354
Project Management Career Development Program (PMCDP)	\$20	\$41	\$4	\$65
A-123	\$32	\$5	\$36	\$73
WCF Management Activity	\$11	\$126	\$7	\$144
<b>Total</b>	<b>\$3,984</b>	<b>\$5,271</b>	<b>\$607</b>	<b>\$9,862</b>

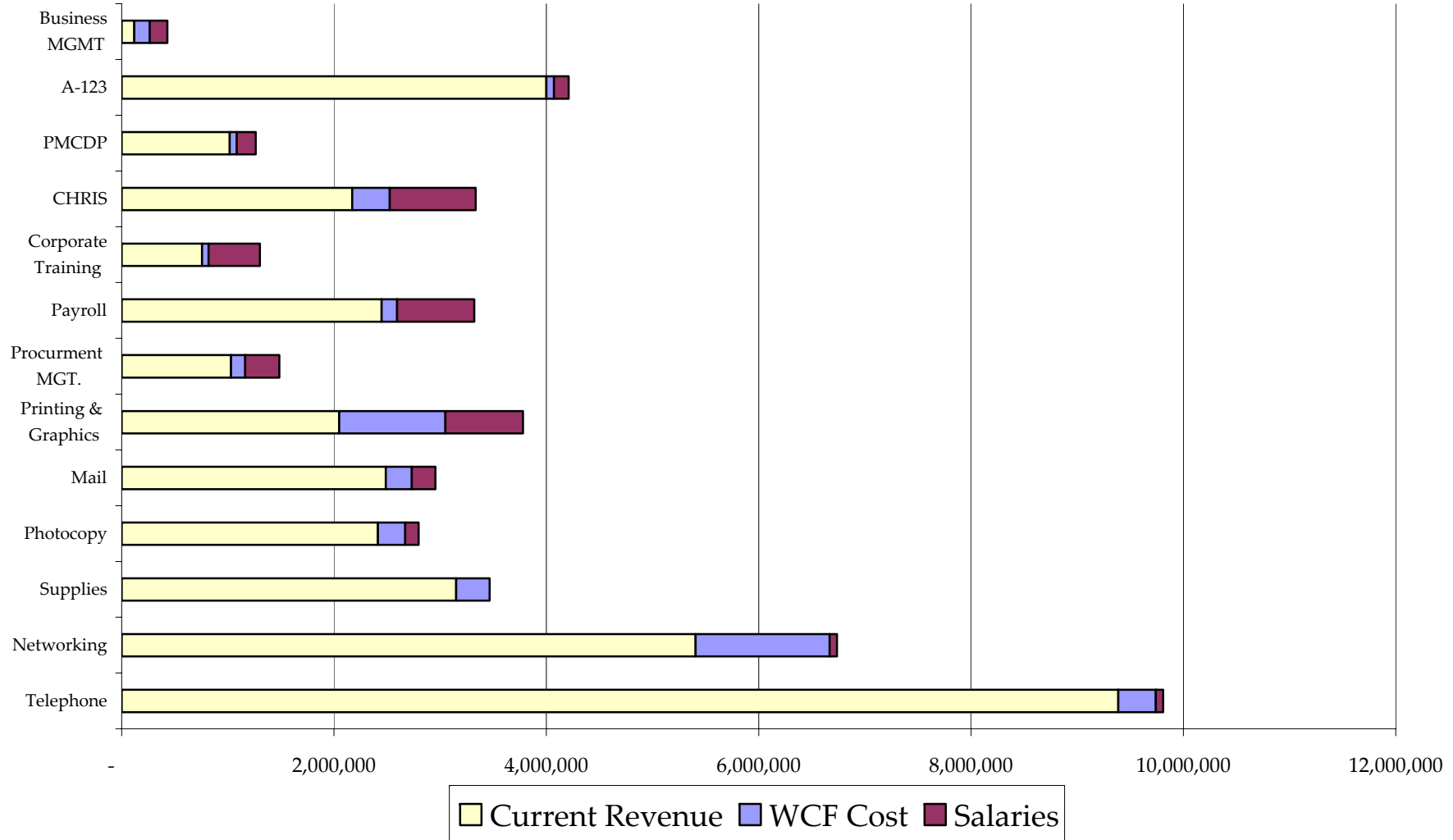
In this report, we have not attempted to quantify further costs that are absorbed by the parent organizations; such as, training or travel that might also be associated with the Federal employees performing WCF services. These charges are difficult to trace back to the business and deemed to have a trivial impact on this analysis.

**Overall Cost Impacts on Businesses**

Overall, we estimate that including the Federal salaries and inter-business costs in the Fund would expand Fund costs by \$16.1 million. Table III below shows the subsidy rate for Building Occupancy of 10% which tends to bring the overall average down considerably. Without the Building Occupancy business, the average subsidy rate is estimated at 29 %.

<b>Table III: 2008 Subsidies by Business Line</b>		
<b>Business Line (Consumer)</b>	<b>Total Subsidy (\$000)</b>	<b>Percent of Current Billings</b>
Fund Mgr	\$310	0%
Phone	\$415	4%
A-123	\$210	5%
Building Occ	\$7,722	10%
Supplies	\$316	10%
<i>Average for All Businesses</i>		<b>14%</b>
Copiers	\$384	16%
Mail	\$469	19%
PMCDP	\$244	24%
Network	\$1,324	24%
<i>Average for Businesses other than Building Occupancy</i>		<b>29%</b>
Payroll	\$875	36%
Procurement Management	\$455	44%
CHRIS	\$1,164	54%
Corporate Training Services	\$545	72%
Printing & Graphics	\$1,730	84%

Chart III - WCF Cost Subsidy, 2008



# Indirect Study

August 2008

Table IV: Federal Employees Engaged in Delivering WCF Services by Business Line, 1998 - 2008.												FY 2008 Salaries & Benefits (\$000)
Business Line	Federal Staff members											
	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	
Telephones	3	4	4	3	3	3	3	2	2	2	1	\$70
Networking	2	1	1	2	2	2	2	1.5	NA	NA	NA	NA
Desktop	3	3	3	3	3	3	5	3.5	NA	NA	NA	NA
Network & Desktop	NA	NA	NA	NA	NA	NA	NA	NA	4	3	1	\$70
Building Occupancy	70	69	69	71	68	61	53	51	29	19	20	\$2,257
Supplies	6	7	7	2	0	0	0	0	0	0	0	\$0
Copiers	2	3	3	3	2	3	3	2.3	1.6	1	1	\$127
Mail Services	2	2	2	2	3	2	2	2	2	2	2	\$225
Printing & Graphics	25	24	23	22	23	14	12	9	9	8	9	\$730
Procurement Management	0	0	0	2	3	3	4	3	4	4	2	\$320
Payroll	7	17	11	15	12	11	11	9.4	9.4	11.4	9.5	\$726
Corporate Training Services	NA	NA	NA	NA	3	5	3	6.5	5	5	4.5	\$484
CHRIS	NA	NA	NA	NA	3	11	12	8	7.1	7.1	8.1	\$810
PMCDP	NA	NA	NA	NA	NA	NA	2	2	1.9	1.8	1.1	\$179
Fund Manager	NA	2	2	2	2	3	3	2.3	1.2	1.1	1	\$166
A-123										1	1	\$137
<b>Total</b>	<b>120</b>	<b>130</b>	<b>125</b>	<b>127</b>	<b>127</b>	<b>121</b>	<b>115</b>	<b>102.5</b>	<b>76.2</b>	<b>66.4</b>	<b>60.2</b>	<b>\$6,301</b>
Management	NA	NA	NA	NA	NA	NA	NA	69.3	47.5	35.8	35.1	\$3,838
Chief Financial Officer	NA	NA	NA	NA	NA	NA	NA	11.7	10.6	13.5	11.5	\$1,029
Human Capital Mgmt	NA	NA	NA	NA	NA	NA	NA	14.5	12.1	12.1	12.6	\$1,294



# Indirect Study

August 2008

WCF SUBSIDIZED COSTS BY BUSINESS LINE DIRECT AND INDIRECT FY 2008															Business Line Consumer				PARENT ORGANIZATIONS			
	PHONE	NETWORK	BLDG OCC	SUPPLIES	COPY	MAIL	PRINTING & GRAPHICS	PROCURMNT MGT.	PAYROLL	CORPORATE TRAINING SERVICES	CHRIS	PMCDP	A-123	FUND MGR	Sub-Total WCF	TOTAL CIO	TOTAL HR	TOTAL CFO	TOTAL MA			
Estimated Subsidized Cost Incurred																						
TELEPHONE EXP	2,454	2,454	46,945	10,000	2,347	3,521	21,125	5,164	12,638	4,817	8,670	2,582	1,330	1,330	125,378	480,962	143,433	264,725	537,523			
NETWORKING EXP	2,166	2,166	22,849	10,000	1,142	1,714	10,282	2,513	15,682	3,187	5,737	1,257	1,651	1,651	81,998	424,624	94,916	328,498	261,616			
DESKTOP EXP	0	0	0	8,000	0	0	0	0	0	0	0	0	0	0	8,000	0	0	0	0			
BUILDING OCCUPANCY EXP	203,538	1,163,074	748,713	248,107	206,390	227,249	891,430	67,677	58,560	25,342	81,485	20,460	31,873	11,367	3,985,265	4,220,457	1,603,093	3,151,051	7,331,351			
SUPPLIES EXP	893	893	12,964	0	648	972	5,834	1,426	5,615	2,568	4,622	713	591	591	38,330	175,112	76,456	117,611	148,436			
PHOTOCOPY EXP	544	544	17,882	0	894	1,341	8,047	1,967	4,838	3,011	5,420	983	509	509	46,489	106,538	89,666	101,339	204,744			
MAIL SERVICE EXP	579	579	24,342	15,000	1,217	1,826	10,954	2,678	4,633	2,879	5,183	1,339	488	488	72,184	113,505	85,736	97,051	278,716			
PRINTING EXP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	36,654	64,755	92,461	221,066			
CLOSEOUT EXP	39	39	7,590	0	379	569	3,415	835	413	141	254	417	43	43	14,178	7,600	4,200	8,650	86,900			
PAYROLL EXP	110	110	4,439	0	222	333	1,997	488	2,206	1,001	1,801	244	232	232	13,416	21,584	29,801	46,215	50,823			
CTS EXP	89	89	3,842	0	192	288	1,729	423	758	518	932	211	80	80	9,229	17,480	15,410	15,870	43,990			
CHRIS EXP	103	103	4,128	0	206	310	1,858	454	1,961	929	1,672	227	206	206	12,364	20,228	27,659	41,076	47,268			
PMCDP EXP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12,000	2,000	19,000	4,000			
INDIRECT																						
NETL EXP											194,300	32,828	0		120,000	0	0	0	0			
eXCITE																						
L.A.I. Subsidy (1)	135,000	84,600	72,000	25,200	43,200	5,400	43,200	51,120	40,680	16,200	43,560	3,960	36,000	7,200	607,320	352,800	482,400	716,400	824,400			
SUBTOTAL	345,516	1,254,651	5,465,693	316,307	256,839	243,522	999,871	134,745	147,983	60,592	353,636	65,222	73,004	143,698	9,861,278	5,989,544	2,719,525	4,999,947	10,040,833			
FED. SALARIES (2)	69,936	69,936	2,257,065	0	126,745	224,982	729,870	320,239	726,541	484,116	810,000	179,054	136,534	166,293	6,301,311	n/a			n/a			
SUBTOTAL	415,452	1,324,587	7,722,758	316,307	383,584	468,504	1,729,741	454,984	874,524	544,708	1,163,636	244,276	209,538	309,991	16,162,589	n/a			n/a			
EQUIP. REPLACEMENT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	n/a			n/a			
TOTAL	415,452	1,324,587	7,722,758	316,307	383,584	468,504	1,729,741	454,984	874,524	544,708	1,163,636	244,276	209,538	309,991	16,162,589	n/a			n/a			
BUSINESS LINE REVENUES (3)	9,385,000	5,405,000	74,631,000	3,150,000	2,414,000	2,488,000	2,049,000	1,029,000	2,447,000	758,000	2,170,000	1,018,000	4,000,000	120,000	116,097,000	n/a			n/a			
% SUBSIDIZED COST (4)	4.4	24.5	10.3	10.0	15.9	18.8	84.4	44.2	35.7	71.9	53.6	24.0	5.2	0	13.9	n/a			n/a			
FEDERAL STAFFING (6/08)	0.5	0.5	20	0	1.0	2	9	2	9.5	4.5	8.1	1.1	1.0	1.0	60	98	134	199	229			
CONTRACT STAFFING (6/08)	37	23	350	7	11	33	3	12	1.8	0	4	0	9	1	492							
% OF TOTAL ON BOARD	0.5%	0.5%	8.7%	0.0%	0.4%	0.7%	3.9%	1.0%	4.8%	3%	6%	0.5%	0.5%	0.5%								
BLDG SQ FT(10/07) (5)	4,645	18,165	18,375	5,730	4,190	5,425	15,779	2,900	1,502	650	1,700	900	1,050	250	81,261				n/a			
BLDG COST (10/07)	\$ 203,538	\$ 1,163,074	\$ 748,713	\$ 248,107	\$ 206,390	\$ 227,249	\$ 891,430	\$ 67,677	\$ 58,560	\$ 25,342	\$ 81,485	\$ 20,460	\$ 31,873	\$ 11,367	\$ 3,985,265							

## AVERAGE DIRECT RENT COST PER SF - FY08

FORS	36.66
GTN	27.69
LENFANT	48.45
CLOVERLEAF	27.97
270 CORPORATE	29.88

(1) Logistics Applications, Inc. (LAI), won the A-76 competition, but contractual cost not changed to program through WCF until FY 2009 Budget; Office of Management subsidizes the \$4.5 million. This subsidy is reflected under other expenses (non-salary).

(2) Includes estimates for salaries, benefits, overtime, and awards. Does not include 9 Administrative Managers.

(3) Reflects Annualized Costs as of June 2008

(4) This represents the percentage increase above current revenues that would be necessary to recover the amount of subsidized costs, including salaries, appearing on the Total Line above "Business Line Revenues". Calculated as: Total Subsidized Cost / Business Line Revenues X 100.

(5) FY 06 space utilization and cost reported by Building Occupancy as of 6/22/07.

(6) In FY 2006 the STARS business line initiated operations. There is negligible federal support for this corporate system.

			oth than bldg
tot ind	\$	16,162,589	12,177,324
tot dir	\$	116,097,000	41,466,000
%		13.9%	29.4%
tot sal	\$	6,301,311	
tot oth	\$	9,861,278	